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WASHINGTON, D. C. 20505

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16 January 1980

MEMORANDUM FOR: Doral Cooper, Staff Economist
Office of the Special Trade
Representative

SUBJECT : Briefing Package for Deputy Special
Trade Representative - Robert
Hormats

In response to our recent conversation, attached
is some background reading for your trip with Deputy
Special Trade Representative, Robert Hormats to the
ASEAN countries for trade consultations and to India
for the UNIDO meeting. Included is the final version
of the UNIDO III paper which you had previously seen in
draft

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Chief,
Political/Economic Issues Branch
International Issues Division
Office of Political Analysis

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CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

16 January 1980

MEMORANDUM

GROUP OF 77 POSITIONS AT UNIDO III

Overview

At the Third General Conference of the UN Industrial Development Organization (UNIDO) in New Delhi, 21 January-8 February, the developing countries (LDCs) will focus on establishing UNIDO as a continuing forum to negotiate solutions to wide-ranging industrial development issues. Their strategy will be to seek international--rather than national and regional--solutions to their industrialization and development problems. The Group of 77, the LDCs' UN caucus, will push hard for a broad commitment by advanced countries to the principle of transferring industrial resources to developing countries, including the establishment of targets for the LDC share of world industrial production and manufacturing trade by the year 2000. In addition, the LDCs have new ideas on financing the transfer of resources to promote industrialization. The developed countries are unwilling to make the broad commitment the LDCs are seeking, indicating that UNIDO could turn into a major North-South confrontation.

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Background

The UN Industrial Development Organization is an organ of the General Assembly whose primary mission is to promote and accelerate industrialization in developing countries. It probably will become a formal UN specialized agency within 18 to 24 months after the UNIDO III meeting. Most

* This memorandum was written by [] International Issues Division, Office of Political Analysis, and was coordinated with the Office of Economic Research. The paper was requested by the Office of the Deputy Special Trade Representative, Mr. Robert Hormats. Comments and queries are welcome, and should be addressed to Chief, Political-Economic Issues Branch, International Issues Division, Office of Political Analysis []

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countries believe that the New Delhi conference will determine the orientation and effectiveness of the future specialized agency. [redacted]

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Procedurally, the conference agenda concentrates on a global rather than endogenous approach to industrialization advocated by developed countries. In large part, this reflects Third World views that development issues should be addressed within the global North-South context. [redacted]

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In addition to the general problem of making progress on many of the ill-defined, global issues, delegates will be faced with an increasing number of working papers and technical reports. For example, "Industry 2000-New Perspectives," prepared by a UNIDO Secretariat task force, outlines eight new proposals and nine recommendations for institutional, financial, and legal measures to achieve global industrial cooperation. The document has not received widespread support among developing countries, industrialized countries, or even the UNIDO Secretariat itself. Although Executive Director Khane is actively promoting it. Other components of the Secretariat apparently are also preparing separate papers on various aspects of the conference agenda. The Group of 77 will table the Havana Declaration, their position paper resulting from the preparatory ministerial meeting in Cuba in December. In addition the developed countries will provide position papers of their own. [redacted]

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Most LDCs view the UNIDO conference as a platform to pursue their general goals of a New International Economic Order. This was certainly the case at the Second UNIDO General Conference in March 1975 in Lima, which resulted in the controversial Lima Declaration and Program of Action--a broad-ranging document that restated LDC demands for the new order. The Declaration called for a link between the prices of finished products and raw materials, national sovereignty over natural resources, advocated producer cartels, and established a goal for LDCs of at least 25 percent of world industrial production by 2000. The United States was isolated in its vote against the final declaration; a number of European Community (EC) states and Japan abstained. [redacted]

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Even though 1975 was a period of intense confrontation in the North-South dialogue, circumstances surrounding the meetings then and now are similar. The 1973-74 Arab oil embargo had made oil price and supply issues a focus of international concern, as they are today. The LDCs are

concerned over their rapidly increasingly debt and deteriorating balance of payments situations--in large part due to higher energy costs. Now, as then, they are frustrated over the slow pace and disappointing results of negotiations with developed countries. [REDACTED]

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Many LDCs believe that the most recent UN General Assembly resolution on industrial development produced little substantive gain for the Group of 77, even after difficult negotiations. However, they did not put their full efforts into the General Assembly debate, believing instead that they could be more successful in actively pursuing their goals in New Delhi, where they certainly will expect a more positive response from developed countries. [REDACTED]

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LDC Preparations for UNIDO III

The Group of 77 position for UNIDO III is outlined in the Havana Declaration, adopted by consensus at their December 1979 ministerial meeting in Cuba. The document is a composite of a draft prepared by Group of 77 delegates in Vienna, and a paper prepared by the Cubans, as hosts of the meeting. In fact, several days of the meeting were lost to procedural debates--sometimes heated--over which document to use as the basis for discussions. The formation of a subgroup to draft an agreed text failed to ease the problem. Although the subgroup was supposed to have nine members--three representatives from each region--the Group of 77 custom of open meetings resulted in most of the delegations vying to have a say in the drafting of the text. [REDACTED]

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The delays left the Group of 77 only limited time to draft the final document, which reportedly draws heavily from the Vienna text. It includes some of the stronger language of the Cuban draft, as well as political references to Zionism, Nicaragua and the Western Sahara issue. The document reportedly does not adequately address the perceptions of many LDCs on the future role and authority of UNIDO. In addition, the group did not review the results of the three regional preparatory meetings that took place last fall. Reflecting the more technical, pragmatic discussions at the regional meetings--as opposed to the political orientation of the Group of 77 as a whole--Asian, African, and Latin American meetings emphasized that industrialization problems could be attacked at the national and regional levels. In addition regional meetings criticized the "Industry 2000" report by the UNIDO Secretariat for advocating unnecessary

new UN bureaucracies. Both positions are more palatable to the developed countries than the stances taken in the final Group of 77 document. [REDACTED]

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Priority Issues to the Group of 77

The Group of 77 supports the Lima Declaration and Plan of Action, but believes there has been little progress in achieving its objectives. In addition to some debate over the commitment of developed countries to the goals listed in the Lima Declaration, the G-77 will table specific plans designed to further promote LDC industrial development. [REDACTED]

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Targets

The Group of 77 will continue to press the industrialized countries to agree to the Lima goal of a 25 percent share for LDCs in world industrial production by 2000. However, they now want to disaggregate this global target into mid-term, regional and industrial sector targets. [REDACTED]

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The LDCs also want to increase their share of world trade in manufactures by setting interim and long-range targets for balancing the manufacturing trade between developing and industrialized countries. By 2000 they want the value of LDC exports of manufactures to developed countries to equal imports of manufactures from those countries. [REDACTED]

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Financing

The Group of 77 believes an increased and assured flow of financial resources from developed countries is essential to accelerate their industrialization and achieve the Lima goals. The Havana document places a great deal of emphasis on financial resource transfers. The Group of 77 endorsed Cuban President Castro's proposal for a transfer by the developed countries to LDCs of at least an additional \$300 billion over the 1980-1990 decade, which would take the form of financial and material resources and technical assistance. [REDACTED]

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The Group of 77 has endorsed the proposal in "Industry 2000" for a Global Fund for the Stimulation of Industry. This fund would be designed to make quick-disbursing program (rather than project) loans to LDCs. The fund would borrow in capital markets against its paid-in and callable capital, much like the World Bank. To aid the least developed, the fund would make low interest loans with the difference between the loan and market interest rate funded by industrial country contributions. The LDCs would like at

least one-third of the fund to be earmarked for the least developed, landlocked, island and most seriously affected categories of countries. Unlike the developed countries, the Group of 77 believes that UNIDO III is an appropriate forum to pursue this proposal. Moreover, at least some members of the UNIDO Secretariat will also be pushing hard for it. []

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The Group of 77 apparently only endorsed further consideration of the UNIDO Secretariat's proposal for an International Industrial Finance Agency, designed to promote long-term investment in LDCs. Since the Secretariat envisages this agency as one to promote cooperation among LDCs that is funded essentially by OPEC surpluses, the proposal probably met some resistance from OPEC members. []

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The developing countries will probably demand that developed nations make a binding commitment at UNIDO III to achieve the \$50 million per annum funding level for the UN Industrial Development Fund. They will also call on countries that have not contributed--including the United States--to do so. []

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Redeployment and Restructuring of Industry

The concept of redeployment of industries from developed to developing countries to achieve industrial restructuring has been a contentious issue in previous discussions. While developed countries are not opposed to restructuring of industry, they see it as an evolutionary process responding to market forces. Many LDCs argue that governmental intervention is required, and they would like UNIDO to develop guidelines for developed countries to hasten structural adjustments. []

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UNIDO sponsors continuing--albeit ad hoc--consultations on industrial redeployment and restructuring among technical experts. The developing countries, however, are demanding that a consultative system be made permanent and that it include government representatives. The Group of 77 also wants to use the consultations to monitor progress on the targets established for their share of global industrial production and trade. The developed countries want to prevent these consultations from evolving into government-to-government negotiations; but would like the consultations to continue as at present, but with an increased emphasis on energy issues. The EC (except the UK) and Nordic countries may exhibit some flexibility in discussions with the Group of 77 on the consultation process. The East Europeans will probably side with the Group of 77 in arguments for a greater government role in redeployment and restructuring. []

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Energy. Energy issues will undoubtedly come up at the conference, because LDCs feel that energy costs and supply are major constraints to their industrialization plans. The Group of 77, however, has not outlined any specific proposals in this area. There is no evidence that energy arose as a contentious issue between oil-importers and exporters at the Group of 77 ministerial. [REDACTED]

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Transfer of Technology

The Group of 77 will make familiar demands to increase the flow of technology to LDCs, endorse the results of the UN Conference on Science & Technology for Development, and call for conclusion of the international code of conduct on technology transfer. In addition, they may seek the creation of an international industrial technology center to promote the flow of technology information and cooperation, a variation of UNIDO Secretariat proposals for three new technology-related institutions. [REDACTED]

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Outlook

The developing countries are going into UNIDO III frustrated with the lack of progress in the North-South dialogue, concerned over global economic uncertainty, and prepared to demand a more positive response from developed countries than they feel they received at UNCTAD V. Because the response by developed countries will fall short of the Group of 77's ambitious demands and proposals, the meeting could self-destruct. OECD governments are generally united in opposition a) to any new financial funds; b) to targets for LDC industrial production and manufactures trade; c) to the LDC concept of redeployment; and d) to turning UNIDO consultations into negotiations. Although some discussion of massive resource transfers will probably take place, it is unlikely there will be any progress in establishing new transfer schemes. [REDACTED]

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The tone of the meeting may depend to a large degree on the ability of more moderate members of the Group of 77 to contain the rhetoric and confrontational tactics of some countries. Working against Group of 77 militancy is the threat that some countries--the United States in particular--would not ratify UNIDO's specialized agency constitution. LDCs are also preoccupied with preparations for the new round of global negotiations--talks that were originally designed to add new impetus to the stalled North-South dialogue--and the General Assembly Special Session on Development this fall. A confrontational UNIDO conference will exacerbate already strained tensions between developed and developing countries and risks hardening the industrialized nations' response to LDC political and economic demands. [REDACTED]

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